Decision **DRAFT DECISION OF ALJ WEISSMAN** **(Mailed 4/8/2005)**

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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| Application of Southern California Edison Company (U 338-E) for Approval of Incremental Energy Efficiency Program Activities for Summer 2005. | Application 05-02-029<br>(Filed February 25, 2005) |

# OPINION ON THE UTILITY'S REQUEST FOR APPROVAL OF INCREMENTAL ENERGY EFFICIENCY ACTIVITIES FOR SUMMER 2005

## TABLE OF CONTENTS

# OPINION ON THE UTILITY'S REQUEST FOR APPROVAL OF INCREMENTAL ENERGY EFFICIENCY ACTIVITIES FOR SUMMER 2005

## I. Summary

There have been growing concerns about the sufficiency of electricity supplies in Southern California this summer. In response to a proposal first made by Southern California Edison Company (SCE) on February 25, 2005, and revised on March 28, 2005, in this decision, we approve incremental energy efficiency programs for the summer 2005 designed to reduce peak demand. SCE originally sought approval for new programs totaling $57 million in new expenditures. While we approve revised programs of this magnitude, we order SCE to redirect $18.7 million in uncommitted energy efficiency funds from prior years for the purposes approved in this decision, and fund only the remaining amounts with new revenues. We are encouraged by SCE's proposal to meet a potentially tight supply situation with energy efficiency measures.

## II. Background

SCE filed this application on February 25, 2005, to address what it describes as potentially constrained electric energy supplies in Southern California during the 2005 summer season. The company seeks (i) an increase of $57 million in procurement energy efficiency funding, and (ii) modifications to existing programs, including increases to existing incentive levels for specific energy efficiency measures, designed to accelerate and increase customer participation in energy efficiency with the goal of generating 193 gWh of additional energy savings and 36.2 MW of peak demand reduction during this summer and beyond.[1]

In Decisions (D.) 03-12-060 and D.04-02-059, the Commission approved a number of procurement-funded energy efficiency programs as part of SCE's 2004-05 energy efficiency program portfolio.[2] With the added funds proposed in this application, SCE seeks to bolster four key procurement-funded programs that have measures designed to immediately and significantly reduce peak demand. We discuss each of these proposals below.

<u>Residential Single-Family Energy Efficiency Rebates</u>. SCE proposes to implement immediately an expanded point-of-sale, instant rebate strategy for selective residential energy efficiency measures in the hopes of significantly increasing program participation, particularly for those measures (refrigerators, pool pumps) that can reduce peak demand for the residential market during the Summer 2005. Currently, instant rebates are only available for compact fluorescent light purchases. In addition to the instant rebate for the customer,

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[1] In its application, SCE stated that the expected peak demand reduction would be 37.5 MW. In its comments on the Draft Decision, Women's Energy Matters pointed out that the individual estimates of peak savings total 36.2 MW. We have adopted that change.

[2] D.03-12-060 and D.04-02-05, issued in the energy efficiency proceeding (R.01-08-028) approved the following ten procurement-funded energy efficiency programs for SCE's 2004-05 portfolio: Residential Appliance Recycling, Single Family Energy Efficiency Rebates, Multifamily Energy Efficiency Rebates, CA Energy Star New Homes – Single Family, Multifamily, Standard Performance Contract, Express Efficiency, Upstream HVAC and Motors Rebates, Savings By Design, Small Nonresidential Hard to Reach, and Innovative Designs for Energy Efficiency Activities (IDEEA). These programs were funded at a two-year funding level of $120 million dollars in D.03-12-062, issued in the Commission's procurement proceeding R.01-10-024, and are expected to generate an anticipated 956 gWh of energy savings and 168 MW of peak reduction over the 2004-05 implementation period.

SCE initially proposed that the participating retailer receive a special incentive fee of $25 for each unit sold, which could be used to cover fees associated with offering the point-of-sale rebate or offered as an additional incentive to the customer. The point-of-sale expansion would emphasize ENERGY STAR® qualified refrigerators and single speed pool pumps and motors. SCE estimates that these proposed program modifications would produce 7.7 gWh of net energy savings and 3 MW of net peak load reductions during the summer months, and require $3 million in additional procurement funding.

Residential Appliance Recycling. SCE recommends immediately increasing the incentive level for freezers to $50 (from the existing level of $35) and lifting the age restriction currently imposed on the Residential Appliance Recycling program.[3] SCE predicts that its proposed program modifications would produce approximately 19 gWh of net energy savings and 3.2 MW of net peak load reductions during the summer months, and require $4 million in additional procurement funding.

Nonresidential Small Business Hard-to-Reach. SCE proposes to target an additional 8,000 small and very small business customers in areas surrounding the Los Angeles area basin during the summer months, offering the installation of no-cost energy-efficient lighting retrofits. SCE would select previously solicited lighting contractor(s) from the Small Nonresidential Hard-to-Reach

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3 *See* Southern California Edison Company's Petition for Modification of D.03-12-060, Dated December 18, 2003, Interim Opinion Adopting Funding for 2004-05 Energy Efficiency Programs and Studies, filed May 26, 2004, arguing that the Commission erred in requiring the age restriction for eligible units, because the age restriction results in the loss of considerable cost-effective energy savings opportunities, contrary to Commission policy, and is problematic to enforce.

Program to reach these incremental customers. SCE looks to this program expansion to produce an estimated 50 gWh of net energy savings and 9.8 MW of net peak load reductions during the summer months, and require $15 million in additional procurement funding.

Nonresidential Standard Performance Contract. SCE proposes to enhance the current procurement-funded program by offering an additional incentive for lighting measures, which would be promoted as the SPC Summer Demand Reduction Initiative, and be available to SCE nonresidential customers installing lighting efficiency measures during the Initiative implementation period (through August 2005). SCE predicts that these installations would result in an estimated permanent net peak demand reduction of 20.2 MW and net annualized energy savings of 117 gWh in the summer months, and require $35 million in additional procurement funding.

In order to deploy these programs prior to the summer, SCE requested expedited treatment and a shortened protest period for this application. By ruling dated March 7, 2005, Administrative Law Judge Steven Weissman shortened the protest period to require protests to be filed no later than March 17, 2005. The Utility Reform Network (TURN), the Office of Ratepayer Advocates (ORA), Inland Empire Utilities Agency (Inland Empire), and Women's Energy Matters filed responses or comments on or before that date. SCE filed its reply to the protests on March 28, 2005. In its reply, SCE reported on its discussions with the protesting parties, the efforts of the parties to agree on program modifications, and the changes to which SCE has agreed.

## III. Discussion

SCE seeks additional energy efficiency procurement funds above the current 2004-05 levels to enhance and expand various energy efficiency programs. These new efforts would be focused on achieving immediate energy savings and peak demand reductions, and SCE expects the proposed incremental program activities to produce approximately 193 gWh of net energy savings and 37.5 MW of net peak demand reductions. The company further asserts that the proposed activities would be cost-effective, using the Commission's approved methods.

### A. Concerns Related to the Summer of 2005

Underlying this proposal is the assumption that there is significant danger of supply shortages occurring in Southern California this summer, and that the expenditures to be approved in this application would have a significant effect on efforts to overcome any such shortages. SCE points to recent statements of the California Energy Commission that, in the event of a very hot summer in 2005, Southern California would need additional resources to maintain acceptable levels of operating reserves, including "augmented efficiency."[4] SCE also cites an Assigned Commissioner and Administrative Law Judge's Ruling Directing the Filing of Rate Design Proposals for Large Customers, dated December 8, 2004, issued in R.02-06-001, stating "there is substantial concern in the regulatory community that during the summer of 2005 there may be insufficient generating capacity to meet system peak demand." Without citation, SCE attributes to the California Independent System Operator (ISO), the conclusion that during the summer of 2004, Southern California exceeded forecasted electrical demand and on seven different occasions broke peak

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[4] *See* California's Electricity Situation Summer 2005, presented at the December 7, 2004 Joint Energy Action Plan Meeting, available at http://www.energy.ca.gov/energy_action_plan/index.html.

demand records due to strong economic growth. The company argues that the potential for disruption of electrical power this summer warrants the proactive pursuit of options to help ensure a reliable supply of electricity during periods of peak demand.

All of these statements reflect expressions of concern, as opposed to providing factual support for the proposition that there is a problem related to summer 2005 that needs to be addressed. However, whether or not there is a significant possibility of shortage in Southern California this summer, SCE's proposed program augmentations only make sense if they are sufficiently cost-beneficial, and if SCE cannot use existing funds to get the job done.

### B. The Use of Existing Funds

SCE argues that the additional funding is necessary because the company otherwise would be forced to shift funds from other energy efficiency programs, such as Residential Multifamily Energy Efficiency Rebates, Upstream Lighting, and nonresidential new construction activities, requiring premature shutdown of these programs. SCE asserts that fund-shifting would undercut its ability to achieve the aggressive energy savings and demand reduction portfolio targets set by the Commission, under the assumption that the shifted funds would be used to increase certain incentive levels for the 2005 summer season.

Despite these claims, the company has not demonstrated that it would be unable to use existing funds for at least some of the proposed new expenditures. For instance, in response to a data request from the Energy Division staff, SCE has identified $18.7 million in unspent, uncommitted funds from past years.[5] This underscores the fact that SCE has not backed up with supporting data its claim of needing new funds at the requested level. It is not reasonable to approve new revenues when there are existing uncommitted funds available. We will require SCE first to redirect the uncommitted $18.7 million for the purposes approved in this decision, and fund only the remaining amounts with new revenues.

### C. Allocation of Benefits Among Ratepayer Classes

SCE initially proposed that an additional $57 million be allocated among the programs as follows:

**Table 1: Proposed Incremental Funding by Program**

| Program | Incremental Budget |
|---|---|
| Residential Single Family Energy Efficiency Rebate Program | $ 3,000,000 |
| Residential Appliance Recycling Program | $ 4,000,000 |
| Nonresidential Small Business Hard-to-Reach Program | $15,000,000 |
| Nonresidential Standard Performance Contract Program | $35,000,000 |
| **Total Incremental Funding Request** | **$57,000,000** |

As a result, $7 million, or 12% of the funds, would be allocated to residential customers and $50M, or 88% of the funds, would be allocated to nonresidential customers. TURN objects to this allocation, suggesting that it does not provide

[5] $1.6 million in pre-1998 Demand Side Management funds, and $17.1 million in post-1997 Public Goods Charge funds.

an equitable share of the funds to programs directly benefiting residential customers.

As discussed in its reply to the protests, SCE's revised programs and allocation would be as follows:

**Table 2 – Revised Proposed Budget**

| Activities | Original Proposed Budget | Revised Proposed Budget |
|---|---|---|
| Residential Single Family Energy Efficiency Rebate Program | $3,000,000 | $13,000,000 |
| Residential Appliance Recycling Program | $4,000,000 | $4,000,000 |
| Small Business Lighting Summer Campaign | $15,000,000 | $10,000,000 |
| Nonresidential Standard Performance Contract | $35,000,000 | $30,000,000 |
| Total | $57,000,000 | $57,000,000 |

As a result of enhancing its proposed Single Family Rebate Program and adjusting its two nonresidential program proposals, SCE offers a 30/70 allocation of direct benefits between residential and nonresidential customers.

TURN does not offer an argument as to what would be an appropriate allocation of direct benefits. We look to previously-approved budgets for 2004-2005 in the hopes of gaining perspective:

**Table 3: Comparative Allocation of Energy Efficiency Spending**[6]

| ENERGY EFFICIENCY PROGRAM BUDGETS (2004-2005) | | | |
|---|---|---|---|
| | **Residential** | **Nonresidential** | |
| **Statewide** | $ 119,810,299 | $ 117,736,044 | |
| | $ 29,779,913 | $ 47,656,383 | |
| | **$ 149,590,212** | **$ 165,392,427** | **$ 314,982,639** |
| | 47% | 53% | |
| **Procurement** | | | |
| PG&E | $ 15,781,000 | $ 59,211,000 | |
| SCE | $ 50,989,799 | $ 68,955,239 | |
| SDG&E | $ 18,140,000 | $ 31,446,000 | |
| | **$ 84,910,799** | **$ 159,612,239** | **$ 244,523,038** |
| | 35% | 65% | |
| **TOTAL** | **$ 234,501,011** | **$ 325,004,666** | **$ 559,505,677** |
| | **42%** | **58%** | |

We note that over-all spending among the three utilities tilts in the direction of nonresidential customers (58% to 42%). Procurement-related spending is more heavily weighted in favor of programs benefiting nonresidential customers (65% to 35%). The original proposal in this application, suggests an even greater preference for nonresidential spending (82% to 18%). SCE responded to TURN's concern by shifting some proposed expenditures to achieve a ratio of 70% to 30%.

The question of whether or not it is appropriate to focus spending more on one sector as opposed to another is too important and complex to resolve in an expedited proceeding such as this. A judgment on this matter requires balancing issues of equity with such practical considerations as the most effective and cost-beneficial ways to reduce peak demand through efficiency improvements. We note that SCE's adjustments in response to concerns voiced

[6] Numbers derived from D.03-12-060, D.04-02-059, and D.04-12-019.

by TURN bring proposed spending closer to the balance achieved by existing programs. For this reason, we will not require further adjustments solely in the name of equity.

### D. The Specific Program Proposals

ORA offers the following summary of SCE's current programs in each of the areas that would be expanded as result of the initial proposal in this application:

**Table 4: Comparison of current funding/goals with proposed incremental funding / goals for the four EE programs**

| | Residential Single Family Energy Efficiency Rebates | Residential Appliance Recycling | Nonresidential Small Business Hard-to-Reach | Nonresidential Standard Performance Contract |
|---|---|---|---|---|
| Approved two-year funding for 2004-05 (PGC + Proc) | $40.5M | $18.8M | $11.9M | $50.2M |
| Two-year goals: kWh (PGC + Proc) | 575,038,578 | 86,573,215 | 32,920,857 | 326,503,917 |
| Two-year goals: kW (PGC + Proc) | 116,172 | 14,798 | 6,422 | 41,748 |
| 2004 Q1-Q4 actuals: kWh (PGC + Proc)[7] | 369,446,516 | 36,092,836 | 0 | 221,517,165 |
| Q1-Q4 actuals: kW (PGC + Proc) | 73,450 | 6,205 | 0 | 34,372 |
| | | | | |
| Requested incremental program funding | $3M | $4M | $15M | $35M |
| Proposed goals: kWh | 6,522,533 | 18,246,047 | 54,854,436 | 117,000,000 |
| Proposed goals: kW | 3,276 | 3,144 | 11,472 | 20,200 |
| Forecasted Cost-Effectiveness Ratio | 1.49 | 4.17 | 3.21 | 5.50 |
| Proposed program changes | Expand point-of-sale | Increase incentive | Incremental funding only | Increase incentive level |

[7] As Women's Energy Matters points out in its Comments on the Draft Decision and Alternate Draft, the data characterized in this table as "actuals" is, in fact, "recorded," which means that it is a combination of "actual installations" and "committed" installations which have yet to be installed.

| | | | | |
|---|---|---|---|---|
| | to include Energy Star refrigerators and single speed pool pumps and motors. | level for freezers to $50 and lifting age restriction | applicable to no-cost energy efficiency lighting retrofits | for lighting measures, excluding Compact Fluorescent Lights (CFLs) |

We now address each of SCE's proposals and the comments of other parties.

### 1. Residential Programs

The Residential Single Family Energy Efficiency Rebate program addresses major end-uses of energy for the home, including ENERGY STAR® qualified refrigerators, ENERGY STAR® qualified lighting, home improvement measures, heating, ventilation and air conditioning equipment, and pool pumps and motors. The program also addresses building shell measures such as attic and wall insulation and windows. The program is a hardware/incentive program, although it has informational components to help meet the need for information about energy efficiency benefits in the marketplace.

SCE's initially-proposed program modifications would require $3 million in incremental funding and produce approximately 7.7 gWh of net energy savings and 3 MW of net peak load reductions.

SCE proposes to implement an expanded point-of-sale (instant rebate) strategy for selected energy efficiency measures immediately before and during the 2005 summer months. SCE believes the expansion of the point-of-sale strategy will significantly increase program participation, especially for those measures that can reduce peak demand for the residential market during the summer of 2005. In addition to the instant rebate for the customer, the participating retailer would receive a special incentive fee of $25 for each unit sold, which could be used to cover fees associated with offering the point-of-sale rebate or offered as an additional incentive to the customer. The point-of-sale expansion would emphasize ENERGY STAR® qualified refrigerators and single speed pool pumps and motors.

SCE states that the measures included in the point-of-sale expansion would continue to be cost-effective at the higher incentive levels.

The Residential Appliance Recycling program is designed to produce cost-effective coincident peak demand reduction and long-term annual energy savings by allowing eligible customers (single family and multi-family owners/landlords and tenants) to dispose of their operable, inefficient primary and secondary refrigerators and freezers in an environmentally safe manner. SCE's proposed program modifications would require $4 million in incremental funding and produce approximately 19 gWh of net energy savings and 3.2 MW of net peak load reductions. To increase program activity during the 2005 summer season, SCE would increase the incentive level for freezers and lift the age restriction currently imposed on the Residential Appliance Recycling program.

SCE proposes to increase the incentive level for freezers to $50 per unit from the current $35. SCE argues that freezers represent a significant peak demand reduction opportunity in the residential market. The company reports that there is a higher percentage of stand-alone freezers in its service territory (as opposed to combination refrigerator/freezers) than is reflected by the percentage of stand-alone freezers thus far collected through the Residential Appliance Recycling program. For the 2004 program year, approximately 11% of all units collected through the Residential Appliance Recycling program were freezers, while the Residential Appliance Saturation Survey reports approximately 15% in the SCE service territory.

SCE argues that offering customers a higher incentive for freezers during 2005 summer months provides an opportunity to increase the number of freezers picked up (as a % of the total units), thereby increasing energy savings and peak demand reduction. SCE states that freezer collection would continue to be a cost-effective measure at the higher incentive level based on the Commission's cost-effectiveness tests.

**Lifting the Age Restriction**

In D.03-12-060, the Commission ordered SCE to limit eligibility under the Residential Appliance Recycling program based on unit age. Effective July 1, 2004, only refrigerators and freezers manufactured prior to 1990 are eligible for collection and recycling under the Residential Appliance Recycling program.[8] SCE currently has a Petition for Modification of D.03-12-060[9] before the Commission to lift this age restriction. SCE expresses its belief that significant energy savings and demand reductions can be captured in the residential sector by lifting this recently-imposed restriction.

SCE claims that once the age restriction became effective, the program experienced a significant loss in energy saving opportunities. The company states that in 2004, over 4,500 SCE customers were denied participation

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[8] SCE states that subsequent to the decision, the Commission's Energy Division authorized the company to phase in the age restriction effective July 2004.

[9] Southern California Edison Company's Petition For Modification of D.03-12-060, Dated December 18, 2003, Interim Opinion Adopting Funding For 2004-05 Energy Efficiency Programs And Studies, dated May 26, 2004.

over the phone due to this restriction. SCE argues that since it can be assumed that many other customers did not call after seeing the requirement in program materials or over the company's web site, an undetermined amount of additional savings opportunities were lost.

SCE asks the Commission to anticipate that it will respond favorably to the pending Petition for Modification of D.03-12-060, arguing that the Commission erred in requiring the age restriction for eligible units. With the removal of the restriction, SCE expects the Residential Appliance Recycling program to experience strong customer demand for this program in 2005.

ORA and TURN applaud SCE's desire to accelerate its energy efficiency efforts in a manner intended to produce a reduction in peak demand this coming summer. However, both groups object to specific aspects of the company's proposal. TURN argues that SCE errs in focusing on refrigerators and freezers in its attempt to address a potential peak demand problem, since these appliances run every hour of the year (as opposed to creating more load during times when the peak may occur), and since room air conditioners produce more peak reduction per dollar than do ENERGY STAR® refrigerators – only 0.03 kW and 74 kWh per unit savings for refrigerators, compared to 0.12 kW and 102 kWh per unit savings for high efficiency room air conditioners. ORA agrees, recommending that SCE should expand the point-of-sale program to include ENERGY STAR® refrigerators, Pool Pumps, Whole House Fans, and Air Conditioners. It points out that of the most readily-available savings strategies, ENERGY STAR® refrigerators offer the least "bang for the buck" (see the following table, based on a table provided by ORA).

**Table 5: Comparison of Per Unit Net Energy Savings, Proposed Customer Rebate and Incremental Measure Costs for Selected Residential Measures**

| | Net energy savings per unit | | | | |
|---|---|---|---|---|---|
| | **kW** | **kWh** | **Rebate** | **Incremental Cost** | **Peak Reduction Per Rebate $** |
| **ES Refrigerator** | 0.032 | 74 | $50 | $98 | .64 watts |
| **Pool Pumps 1 speed** | 0.612 | 1,134 | $125 | $528 | 4.90 watts |
| **Pool Pumps 2 speed** | 0.612 | 628 | $300 | $528 | 2.04 watts |
| **Whole House Fan** | 0.713 | 460 | $100 | $142 | 7.13 watts |
| **ES AC - Tier I** | 0.664 | 352 | $200 | $636 | 3.32 watts |
| **Central AC-Tier II** | 0.904 | 481 | $425 | $1,684 | 2.13 watts |

The clear "bang-for-the-buck" champion is the whole house fan. Single-speed pool pumps are second-best. More efficient air conditioners can also deliver effective savings. However, the least effective use of a rebate dollar, on a per-unit basis, would be to encourage the purchase of an ENERGY STAR® refrigerator.

ORA acknowledges, however, that the sales turnover for refrigerators is far higher than that of the other measures. ORA does not propose dropping refrigerators from the summer rebate program entirely, but would instead make the per-unit refrigerator incentive for the participating retailer commensurately smaller. ORA supports a per-unit special retailer incentive of $25 for pool pumps, whole house fans and air conditioners, with an incentive of $10 for refrigerators.

SCE agrees with TURN that the Residential Appliance Recycling program is very cost-effective and, indeed, has greater cost-effectiveness potential than ENERGY STAR® refrigerators. However, SCE points out, as ORA states, refrigerators are a high customer demand item. Additionally, given the expected customer demand associated with SCE's planned ENERGY STAR® refrigerator measure, SCE believes this measure is worth aggressively promoting as part of the Summer 2005 initiative. SCE proposes to continue to promote the Residential Appliance Recycling program at the point of sale by informing customers about the benefits of recycling their older units.

With respect to ORA's concern over the proposed retailer incentive amount, SCE notes that the amount was based on discussions with retailers regarding the need to have the retailers collect certain participating customer information, and the costs involved with such data collection. However, instead of offering a cash incentive to the participating retailers, SCE proposes to offer a small gift card (*e.g.*, $5) to customers who call a toll free phone number given to them upon receiving the instant ENERGY STAR® refrigerator rebate, and provide the information necessary to the program. SCE argues that this alternative would eliminate the need for a retailer incentive, and improve the participating customers' experience with the point-of-sale process. SCE believes this strategy would also allow for the collection of necessary participating customer information, because SCE has successfully used the gift card strategy in the past for other programs (*e.g.*, Residential On-Line Surveys, Small Business On-Line Surveys) to reward participants who provide information regarding their energy-use habits.

As noted above, ORA recommended that the point-of-sale strategy for the single family rebates proposed in the Application be expanded to include whole house fans and air conditioners. TURN suggested that SCE target high efficiency residential HVAC end uses. TURN pointed to the potential demand reduction associated with room air conditioners. In consideration of these comments, SCE proposes to modify the Application's proposed single family rebate activities to include an incremental residential central air conditioning incentive, and expand the point-of-sale strategy to include energy-efficient room air conditioners and whole house fans.

SCE states that it did not propose a room air conditioner measure for the Residential Single Family Energy Efficiency Rebate Program in the initial application because SCE's current potential study, which it considered in preparing the proposed incremental energy efficiency activities, did not indicate a significant market for room air conditioners beyond that already anticipated under the existing program. However, SCE is now willing to try using the same point-of-sale strategy proposed for ENERGY STAR® refrigerators (including the gift card strategy for gathering participant information) for both room air conditioners and whole house fans. In addition, SCE proposes to offer an incremental incentive for central air conditioners of $100 above the existing incentive levels, to encourage the sale of energy-efficient units.

To implement these additional measures, SCE would shift $5 million from the proposed Nonresidential Standard Performance Contract program and $5 million from the proposed Small Business program (for a total increase of $10 million) to the proposed Residential Single Family Energy Efficiency Rebate program.

We are grateful for TURN's and ORA's efforts to respond to SCE's proposal in a very short period of time, while striving to make the program as effective as possible. SCE worked with these parties to refine its proposal, and the result is potentially better, in terms of offering an opportunity for more cost-effective incentives, but we are unaware of the overall changes in savings given these program changes. In response to the Draft Decision, SCE updated its estimate of savings from the Single Family Energy Efficiency Rebate effort this summer. It now expects a net annual energy savings of 22 GWh, and a net demand reduction of 18.6 MW. We will approve these revised rebate programs because they provide a chance to accelerate load reduction in advance of this summer's potential high demand, and because they will not pose significant new ratepayer costs unless measures are actually installed within the timeframe of the program. However, we are persuaded by ORA and TURN that it will be beneficial to all involved if more incremental incentive dollars go to the installation of whole house fans, pool pumps and air conditioners, and fewer go to ENERGY STAR® refrigerators. We implore SCE to be particularly aggressive in pursuing the accelerated implementation of these favored measures. For instance, TURN believes that with these new incentives, more efficient room air conditioners will "fly off the shelf like hotcakes." We hope they are right.

SCE also seeks additional funds to enhance its refrigerator/freezer recycling incentive this summer by increasing the freezer incentive level by $50 and to offset increased customer demand to be caused by lifting the age restriction for refrigerators/freezers. ORA supports the removal of the age restriction, arguing that it creates a significant barrier to interested customers who may not have the proper documentation for a second-hand unit.

The age restriction was imposed in D.03-12-060, which concludes that only refrigerators/freezers manufactured prior to 1990 are eligible for the recycling program. SCE filed a petition to remove this restriction, and the petition is still pending. We will not use this expedited application to remove the age restriction.

The objective of the recycling program is to remove from the electric grid older, inefficient refrigerators and freezers that are still in working condition. As originally proposed, the program did not define "older" or "inefficient." The Commission, therefore, included the age requirement to reflect the fact that federal efficiency standards for refrigerators and freezers first became effective in 1990. It is assured that refrigerators and freezers sold prior to 1990 will be significantly less efficient than those currently on the market. Based on the information available in this proceeding, we are not in a position to determine whether the same observation would apply to later-generation appliances. We lack the factual basis in this proceeding to determine that SCE cannot effectively achieve its penetration goals without lifting the age restriction. SCE can continue to make its case in its Petition for Modification. We will not prejudge the Petition here.

ORA opposes SCE's proposed $15 increase in the incentive for recycled freezers. SCE states that in 2004, only 11% of the recycled units were freezers, although stand-alone freezers in its service territory account for 15% of the total populations of refrigerators and freezers. ORA argues that this difference might be an artifact of the age restriction, discussed above. In addition, ORA suggests that because the energy savings resulting from freezer recycling is slightly less than that related to refrigerators, it is inappropriate to provide a greater incentive for the recycling of freezers. SCE contests ORA's conclusion about the relative savings resulting from freezer recycling, arguing that ORA had mistakenly concluded that freezers produce less savings by comparing gross savings, rather than net savings. After applying the current net-to-gross ratio of .35 for refrigerators and .54 for freezers, SCE states that the net savings are 681 kWh (.12 kW) for refrigerators and 897 kWh (.17 kW) for freezers, thus justifying a greater incentive payment for freezer recycling.

We agree with ORA that the record does not support an increased incentive for freezer recycling. SCE has not demonstrated that it will fail to meet its two-year target for freezer recycling with the existing incentives, or that a higher incentive payment is warranted for recycling freezers. Even if the appropriate calculation of net energy savings suggests that freezer recycling is more beneficial than refrigerator recycling, SCE has not shown whether this difference supports a $15 increase for freezers. We will not approve SCE's proposed increased incentives for freezer recycling.

We will allow SCE to receive the $4 million in additional funds it sought, in this application, for its appliance recycling program. However, because we are approving neither the new $15 incentive, nor the removal of the age limit, it is less likely that SCE will need all of these funds to support its recycling program this summer, regardless of its success in attracting new customers. We will allow SCE to redirect to the point-of-sale rebate program any of these funds it needs to support its efforts to promote the early implementation of whole house fans, pool pumps and air conditioners.[10]

In addition, the Assigned Commissioner asked parties to address in the comments on the draft decision; the means of using some of these funds to augment the "Flex Your Power" outreach efforts related to this summer. She

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[10] We note that in its Comments on the Draft Decision and Alternate Decision, SCE proposed to continue to offer its Summer Initiative incentives to residential customers through December 31, 2005 (while only offering nonresidential incentives through August 31, 2005). SCE argues that its programs would not receive retailer support if they were offered only during a short period of time. This argument is not persuasive, as sales and special offers often last for only a short period. It is anti-ethetical with the stated goal of achieving peak reductions this summer to allow the funds to be spent well beyond the summer. All programs should run only through August 31, 2005.

also asked that parties specify the appropriate amount to allocate for this purpose. All parties offering comments on this issue opposed using the incremental funds at-issue in this application to augment the "Flex Your Power" and, accordingly, no party proposed to allocate any funds for that purpose. However, SCE pledges to undertake a focused, locally-based effort to promote the initiatives approved in this decision. Lacking a record to support allocating any of these funds to the "Flex Your Power," we will not do so. We are encouraged, however, that the "Flex Your Power" campaign plans to promote energy efficiency and demand reduction to customers during the 2005 summer season.

### 2. Nonresidential Programs

#### a) Nonresidential Small Business Hard-to-Reach Program

SCE's proposed Commercial Lighting Summer Program is incremental to the existing procurement-funded Nonresidential Small Business Hard-to-Reach Program. SCE expects the program to produce cost-effective, long-term annual demand and energy savings by providing no-cost energy-efficient lighting retrofits to 8,000 very small (0 - 19 kW) and small (20 kW to 100 kW) business customers in SCE's service territory. SCE's states that proposed program modifications would require $15 million in incremental funding and produce approximately 50 gWh of net energy savings and 9.8 MW of net peak load reductions.

The program is an expanded version of the approved 2004-2005 Small Nonresidential Hard to Reach Program, with three key modifications: (1) SCE would only offer lighting retrofit measures; (2) SCE would suspend the outreach CBO / FBO element for rapid deployment; and (3) while the expanded program would be offered only to customers within SCE's service territory, it specifically targets areas surrounding the Los Angeles basin, to avoid program overlap.

SCE argues that the targeted customer segments often do not take advantage of energy savings opportunities because they have higher start-up costs than less-efficient measures. Small and very small customers often lack the information about the benefits of energy efficiency improvements. Since the majority of these customers have rented business space, there is split incentive barrier to adoption of energy efficiency improvement. SCE claims that this program would address these barriers by providing no-cost energy-efficient retrofits that can stimulate long-term change in customers' knowledge and behavior about the benefits of energy-efficiency in their businesses. SCE would select previously-solicited lighting contractor(s) from the Small Nonresidential Hard-to-Reach Program to approach these incremental customers.

ORA questions the cost effectiveness of SCE's proposed additions to the program, pointing out that the per-unit financial incentives for the program are much higher than the incentives in the Express Efficiency program, which targets small to medium sized businesses. ORA also notes that the per-unit financial incentives for the Small & Hard-To-Reach program are also higher than the incremental measure costs for the majority of the measures covered. The next table, provided by ORA, compares the per-unit financial incentives of the Small & Hard-To-Reach and Express programs.

**Table 6: Comparison of Per Unit Financial Incentive between Small & Hard-To-Reach and Express for selected measures**

| | Small & Hard-To-Reach | | Express | |
|---|---|---|---|---|
| | Financial incentive per unit | Gross Incremental measure cost | Financial incentive per unit | Gross Incremental measure cost |
| Screw-in CFL, 5 – 13 Watts | $9.52 | $9.17 | $1.50 | $14.40 |
| Screw-in CFL, 14 – 26 Watts | $9.52 | $12.00 | $3.50 | $11.38 |
| Screw-in CFL, 27 Watts | $9.52 | $12.00 | $4.25 | $21.00 |
| LED exit Sign | $66.81 | $94.00 | $27.00 | $111.00 |
| Interior HID fixture 0–35 Watts incandescent base | $136.00 | $133.00 | $18.00 | $133.00 |
| Interior HID fixture 0 – 35 Watts mercury base | $136.00 | $60.00 | $12.50 | $60.00 |
| Interior HID fixture 36–70 Watts incand.base | $174.00 | $171.00 | $25.00 | $171.00 |
| Interior HID fixture 36 – 70 Watts merc. base | $174.00 | $70.00 | $18.00 | $70.00 |
| Exterior HID fixture 0 – 100 Watts merc. base | $98.00 | $95.00 | $22.00 | $95.00 |
| Exterior HID fixture 101–175 W incand. Base | $160.00 | $150.00 | $64.00 | $150.00 |
| Exterior HID fixture 101 – 175 Watts merc. base | $160.00 | $150.00 | $30.00 | $150.00 |

SCE asserts that the Small & Hard-To-Reach program overall benefit: cost ratio is 3.21:1 assuming an effective useful life of eight years for compact fluorescent bulbs.[11] However, ORA reports that a recent study found the observed average annual hours of operation was 2,709 (including the lodging segment) and 3,612 (excluding the lodging segment).[12] ORA concludes that using an average manufacturer rated life of 7,962 hours, the revised effective useful life ranges between 2.2 to 2.9. On this basis, ORA called for SCE to provide an alternative cost effectiveness calculation based on more realistic numbers.

In response, SCE stated that it understands that the useful life assumptions referred to by ORA are planned for release in April 2005. Thus, the assumptions are not yet final. Nevertheless, SCE is willing to modify the proposed useful life of compact fluorescent measures in the application to two years, and further states that such a change would revise the Total Resource Cost ratio from 3.7 to 3.2, which indicates that this measure would still be a very cost-effective option for the customer. The modification to the proposed useful life assumption would not impact the energy and demand savings the compact fluorescent light measure is expected to generate during the critical Summer 2005 season.

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11 Supplement to SCE's application filed on March 4, 2005.

12 The "2003 Express Efficiency Program – CFL Annual Hours of Operation Assessment" This study was managed by PG&E, under the auspices of CALMAC, and performed by Quantum Consulting. The draft study report was released on January 22, 2005 and the final study report is pending.

ORA objects to providing incremental funding to the Small & hard-To-Reach program for two reasons: First, ORA states that the proposed budget for the Small & hard-To-Reach program appears to be scaling up this program too quickly, observing that SCE's incremental increase is 25% larger than the two-year authorized budget for the program. Given the fact that the program has no recorded energy or demand savings for 2004 (apparently because selection of a contractor took nearly a full year), the fact that program activities have just recently started, and the compressed schedule to implement the Summer 2005 program activities, ORA is skeptical that the program can be ramped up over the next four – five months to deliver the amount of energy savings forecast by SCE.

Second, ORA reports that the general consensus from the ongoing 2006-2008 Program Advisory Group is to encourage comprehensive energy efficiency retrofits, rather than selectively targeting lighting measures. ORA advocates that utility administrators take into consideration the additional administrative and contractor costs incurred by having to revisit the same customer site to install piecemeal retrofit projects, as opposed to a single comprehensive retrofit project.

Even within the nonresidential customer segment, ORA continues, energy efficiency potential extends beyond lighting retrofits. ORA reports that many excellent ideas came up during the Program Advisory Group meetings on how to better penetrate the nonresidential hard-to-reach segment, *e.g.*, zip code by zip code sweep, combination of on-bill financing and rebates, partnerships with local governments and community-based organizations. Instead of increasing funding to the Small & Hard-To-Reach program, ORA recommends the Commission direct SCE to incorporate some of these ideas in 2005.

ORA also recommends that SCE expand funding to Express Efficiency and other partnership programs that target small to medium sized businesses to meet the Summer 2005 resource demands. Instead of merely increasing the rebate level for selected measures, ORA suggests that SCE consider lifting the ≤500 kW per individual account eligibility requirement from the Summer Express Efficiency program to encourage wider participation.

In addition to the concerns raised by ORA, TURN recommended that SCE include room air conditioners for these smaller, hard-to-reach business customers.

SCE replies that the objective of the Small Commercial Lighting Summer campaign is to achieve immediate peak demand reduction during the 2005 summer season for as many small businesses as feasible. A focus on lighting retrofits will accomplish this. However, as ORA recommended, SCE does plan to coordinate targeted efforts with local governments. And, the campaign would target very small businesses (< 20 kW), which the Commission classifies as hard-to-reach.

In addition, SCE says it would continue to offer the existing Small & Hard-to-Reach program, which works with community-based organizations, to identify hard-to-reach small businesses. The existing program includes youth job creation, and provides comprehensive retrofits (including HVAC) and audit services to small businesses.

To obtain the peak demand reduction in time for the summer season, SCE would rely on a different set of contractors from the ones implementing the existing program. These new contractors would focus exclusively on lighting, which would enable many more businesses to be retrofitted and, at the same time, not require a second visit by a HVAC contractor,[13] thereby reducing the cost, complexity and time it takes to complete the campaign.

For these reasons, SCE continues to argue that the proposed summer program should be approved.

We share ORA's concern that even if this program would succeed in producing short-run savings with the installation of relatively short-lived compact fluorescent bulbs in place of incandescent bulbs, it may reduce SCE's ability to achieve greater long-run savings by focusing exclusively on lighting measures. The program in its current form is designed to introduce a comprehensive set of energy efficiency measures. If SCE wants to pursue lighting improvements through these hard-to-reach customers this summer, it must find a way to draw these customers into a broader energy efficiency effort. In addition, SCE should explore ORA's proposal to use portions of the incremental funds to expand funding to Express Efficiency and other partnership programs that target small to medium sized businesses to meet the Summer 2005 resource demands and to modify the 500 kV barrier. In its initial comments to the proposed decision, we asked SCE to offer proposals in response to these suggestions, while also addressing the effect of these proposals on SCE's effort to achieve peak savings this summer.

In response, SCE points out that in its application, it proposed to extend the Standard Performance Contract Summer Initiative to all

[13] Lighting contractors are not licensed to install HVAC equipment.

nonresidential customers, including small to medium-sized businesses. Furthermore, SCE plans to promote the program through a special mailing distributed to customers who would normally be eligible for the Express Efficiency program to encourage their participation. Additionally, SCE plans to leverage its strong relationships with key partnerships to promote the Small Nonresidential Hard-to-Reach Program to small business communities to ensure the program achieves expected results for the 2005 summer season.

#### b) Nonresidential Standard Performance Contract Program

The Nonresidential Standard Performance Contract program is a pay-for-performance program that offers cash incentives for custom-designed, cost-effective long-term annual energy saving retrofits of existing business facilities. Designed primarily for large and medium businesses, small and very small businesses can also participate if the energy efficiency measures do not qualify for the Express Efficiency program. Incentives are paid based on the kilowatt-hours of electricity saved.

SCE proposes selective incentive level increases to the current procurement-funded Standard Performance Contract program. The increased incentive levels would fall under an added promotion called SPC Summer Demand Reduction Initiative, which would provide additional incentives to SCE nonresidential customers for eligible energy-efficiency lighting projects that are applied for, approved and installed at the customer's facility during the Initiative's implementation period (through August 2005). SCE projects that the installations would result in permanent net peak demand reduction of 20.2 MW and net annualized energy savings of 117 gWh.

Recipients of all eligible measures under the Initiative would be paid an energy (kWh) savings incentive on a per-kWh saved basis. The Initiative incentive (energy savings incentives plus demand reduction incentive) would cover up to 100% of a measure's installed cost. SCE argues that to successfully implement the SPC Summer Demand Reduction Initiative and achieve the desired results, it would be necessary to make key program modifications to SCE's current procurement-funded Standard Performance Contract program during the period the Initiative is in effect. SCE discusses these modifications, including the elimination of the 80/20 Rule and the 30% of incentive budget limitation, in Appendix E of Exhibit SCE-1 attached to its application.

As set forth in D.03-12-060, SCE is required to provide a 20-day advance notice to the energy efficiency rulemaking service list, and receive Commission approval, of any increases to approved program incentive levels.[14] SCE submits that this application, which is served on the parties to R.01-08-028, satisfies the notice requirement for the increased incentives proposed herein. And, SCE does not plan to offer the proposed increased incentives unless and until the Commission approves this application (in whole or in relevant part). Accordingly, SCE does not plan to provide any further notice or seek separate approval of the incentive increases proposed herein. If, upon approval of this

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[14] *See* D.03-12-060, Ordering Paragraph 14, p. 41, providing that "a utility shall not increase the dollar amounts of individual customer incentives above those approved in this decision and as filed in their approved Program Implementation Plans without first notifying all parties to this proceeding electronically and receiving approval from designated Commission staff, consistent with this order. . . Increases to customer incentive amounts must be approved in advance by designated Commission staff following 20-day notice to staff and the service list of this proceeding."

application, SCE finds that additional incentive level changes beyond what are identified in this application are necessary, SCE would follow the Commission's notification and approval process articulated in D.03-12-060.

Upon notice of SCE's request in this application for increases in approved incentive levels, some customers and contractors may be tempted to withhold project applications, or withdraw pending 2005 applications and resubmit them later in anticipation of being eligible to receive potentially higher incentives. This situation would be contrary to the purpose of the proposal: namely, to accelerate energy efficiency activity to reduce demand during the summer months. To avoid this situation, SCE requests the authority to pay the incremental incentive amount resulting from approval of this application to any customer that submits an eligible project to SCE after the date of the filing of this application, and, additionally, to pay the additional incentives to customers who submitted an application for an eligible measure between January 1, 2005 and February 28, 2005, and who agree to, and meet, an accelerated deadline for verified installation of the eligible measure by August 31, 2005.

The gist of SCE's proposal is that during the summer of 2005, it would be exempt from the rules normally governing the Standard Performance Program. Normally, at least 20% of the savings resulting from a retrofit that qualifies for the incentives must be derived from non-lighting measures. This is referred to as the 80-20 rule. This is intended to ensure that businesses participating in the program will consider an array of energy efficiency improvements, including some that do not offer as impressive of a ratio of benefits to costs as can be achieved with lighting retrofits. For this summer, SCE wants to be exempt from the 80-20 rule, so that it can reward projects that affect only lighting. Normally, the incentive payments are limited to 50% of the measure's installed cost. For this summer, SCE seeks to eliminate this restriction, so that it can pay incentives of up to 100% of a measure's installed cost. Normally, participants in the 2005 program must complete the retrofit installations by June 1, 2006 in order to receive the incentives. In order to receive the higher incentives this summer, SCE would require the installations to be completed by August 31, 2005.

ORA initially supported the proposal to suspend the 80-20 rule this summer. However, ORA opposes raising the incentive levels, which offer customers the equivalent of a pre-summer sale, out of an apparent concern that in future years, customers will delay making energy efficiency improvements in the hopes that another pre-summer sale will come along. ORA argues that raising incentive levels in anticipation of a hot summer undermines the program planning effort and incurs additional marketing costs to advertise the new incentive levels.

SCE states that it shares ORA's concern that increasing incentives now may cause customers to wait, in the future, for additional such promotions. However, SCE reiterates that if approved, it would be making a one-time offer. SCE states that it does not plan to make this offer again, but that it believes the additional incentives are necessary to encourage the market to pursue this aggressive target date. The company does not explain, however, how it will assure its customers that it does not pay to wait for another special deal.

We appreciate ORA's concern that about the potential that if SCE offers better-than-usual incentives now, customers will expect such deals in the future. SCE will face a special challenge in convincing customers that it does not pay to wait. However, we will not respond to that challenge by denying SCE the opportunity to seek greater savings for this summer. Of perhaps greater concern is that by offering higher incentive payments to those customers undertaking only lighting changes this summer, SCE may lose the opportunity to help the same customers achieve greater savings through a more comprehensive energy efficiency strategy.

In order to ensure the SCE is not inadvertently encouraging customers to seek lighting changes in lieu of a more comprehensive approach, we will approve SCE's proposal with the following modifications. First, SCE may offer higher incentive payments for Standard Performance Contract customers that install more efficient lighting this summer, but participating customers must agree to adopt a more comprehensive energy efficiency plan within a reasonable period of time. SCE should withhold any larger-than-current incentive payments until the customer has implemented a more comprehensive plan pursuant to the Standard Performance Contract Program. Second, we will not grant SCE's request for an exemption from the 80-20 rule. In its comments on the Draft Decision, ORA argues that if we allow SCE to double its incentive, that it is not necessary to also remove the 80-20 limitation. We agree that SCE has not demonstrated the need to remove this restriction as it is dramatically increasing the incentive payments.

Third, SCE shall require that the installation of follow-up project components be completed by December 31, 2008, or the customer will be deemed to have waived its claim to the incremental savings benefit. ORA suggested this modification in its comments on the Draft Decision. We find that this is a reasonable additional term in order to allow SCE to close out the remaining committed funds at the end of the next three-year program cycles, and before a new cycle begins.

Finally, we note that, in order to avoid penalizing customers that have applied for participation in this program while this application is pending, SCE proposes to offer the increased rebates to any customer that submitted an application on or after the date that SCE filed this application. This appears to be a reasonable approach provided that SCE only pay the higher-than-current incentives to customers that bring at least the lighting measures into effect prior to August 31, 2005.

### 3. Proposed Ratemaking Treatment

Pursuant to D.03-12-062, SCE established the one-way Procurement Energy Efficiency Balancing Account (PEEBA) to track the difference between recorded procurement-related energy efficiency costs and procurement-related energy efficiency revenues authorized in D.03-12-062.[15] On a monthly basis, SCE records its actual procurement-related energy efficiency program expenses in the PEEBA. From this amount, SCE deducts one twelfth of the authorized procurement-related energy efficiency revenues to determine the monthly over- or under-collection recorded in the PEEBA.[16] D.03-12-062 authorized a procurement-related energy efficiency level for SCE of $60 million per year for 2004 and 2005. Interest accrues monthly to the PEEBA by applying the three-month commercial paper rate to the average balance in the account.

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[15] SCE established the PEEBA and associated ratemaking in Advice Letter 1768-E submitted to the Commission on January 7, 2004 in compliance with D.03-12-062.

[16] Due to the one-way nature of PEEBA, any under-collections (i.e., excess expenditures) existing at the end of the authorized program cycle will not be eligible for recovery from customers.

SCE recovers its currently authorized procurement-related energy efficiency level through its existing non-bypassable Public Purpose Programs Charge (PPPC), which applies to all of SCE's retail customers. Recorded PPPC revenues associated with the procurement energy efficiency programs are recorded in the Public Purpose Programs Adjustment Mechanism (PPPAM) in the CPUC Public Purpose Programs Balancing Account sub-account. In order to ensure that SCE recovers neither more nor less than its authorized procurement-related energy efficiency funding, SCE also records a monthly debit entry equal to one-twelfth of the annual authorized procurement-related energy efficiency revenue requirement in the CPUC Public Purpose Programs Balancing Account sub-account.

SCE proposes to track and recover the additional procurement-related energy efficiency funds requested in this Application through its existing PEEBA and PPPC.[17] Upon receiving a final decision in this Application, SCE would increase its annual authorized procurement-related revenue requirement by the amount approved by the Commission in this Application. For example, if the Commission adopts SCE's energy efficiency request as filed, SCE's procurement-related energy efficiency revenue requirement recorded in both the PEEBA and PPPAM would be increased by $57 million to reflect a total procurement-related energy efficiency revenue requirement of $117 million.

In order to reduce the number of rate changes, the Commission has established the annual Energy Resource Recovery Account (ERRA) Forecast

[17] The PPPC, as mentioned above, applies to all of SCE's retail customers, both bundled service and direct access.

proceeding as the proper place to consolidate all Commission-authorized revenue requirement changes into one rate level change. Therefore, SCE proposes to include the revised procurement-related energy efficiency revenue requirement approved in this proceeding in PPPC rate levels on or after January 1, 2006 as part of its 2006 ERRA Forecast proceeding revenue requirement and rate consolidation. This rate consolidation would include the true-up of any undercollection that may accrue in the PPPAM due to the time lag between implementing a revised procurement-related energy efficiency revenue requirement and actually reflecting the revised revenue requirement in rate levels.

This proposal is consistent with existing practice and therefore should be approved.

### 4. Eligibility of Direct Access Customers

The Inland Empire Utilities Agency is a customer of SCE and additionally has direct access agreements that serve what it calls a minor portion of its load. In its opening comments, The Inland Empire Utilities Agency asks SCE to clarify that direct access customers would be eligible to participate in the Standard Performance program this summer. SCE does, in fact, propose that direct access customers be eligible to seek the increased summer incentives. Since the incremental funds for this program would be derived from procurement funds, which, in this case are recovered through a non-bypassable charge applied to all customers, we agree that all customers should be able to participate in this program.

### 5. The Comments of Women's Energy Matters

In its Comments, Women's Energy Matters objected to SCE's use of the assumption that compact fluorescents installed under its summer program would have an expected useful life of eight years. The organization asks that the Commission immediately open an investigation into the creation of the summer 2005 plan, which it considers to be fraudulent, and hold hearings on what it calls "the issue of utility gaming of the energy efficiency system." As noted earlier, SCE has accepted a different assumption, for the purposes of this proceeding, as to the expected useful life of compact fluorescent fixtures. This would seem to answer Women's Energy Matters' immediate concern. This is not the time or place to consider any further investigations related to this issue.

## IV. Categorization and Need for Hearings

In Resolution ALJ 176-3149 dated March 17, 2005, the Commission preliminarily categorized this application as ratesetting and preliminarily determined that hearings were not necessary. We have addressed the protests as described in the decision and hearings are not necessary. It is not necessary to alter the preliminary determinations made in Resolution ALJ 176-3149.

## V. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(3) and Rule 77.7(f)(9) of the Rules of Practice and Procedure. Comments were filed on April 26, 2005, and Reply Comments were filed on May 2, 2005.[18] The ALJ has revised the Draft Decision in several respects, in response to the comments.

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[18] SCE filed its Comments one day late, with an attached Motion to Accept Late-Filed Comments. That motion is hereby granted.

## VI. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Steven A. Weissman is the assigned ALJ in this proceeding.

## VII. Conclusion

We approve SCE's revised request to supplement its energy efficiency activities during the summer of 2005 with the following modifications:

1. As part of the approved $57 million in new expenditures, SCE shall first use $18.7 million in unspent, uncommitted funds from past years.

2. SCE should aggressively seek customers to purchase house fans, pool pumps and air conditioners through its expanded point-of-sale (instant rebate) program.

3. SCE shall not, at this time, remove the age limitation for refrigerators and freezers qualifying for the recycling rebate program.

4. SCE shall not increase the rebate incentive for freezer-only recycling. SCE may redistribute the additional $4 million requested for the recycling program for use in the point-of-sale program, as needed.

5. In its initial comments on the draft decision, SCE shall offer proposals to incorporate the recommendations of ORA, discussed above, as they relate to the Small & Hard-to-Reach business proposal. These comments shall include a proposal for requiring participating customers to adopt a more comprehensive set of measures beyond the summer light bulb replacement.

6. SCE shall withhold any larger-than-current incentive payments for participants in the Summer 2005 Standard Performance Contract lighting retrofit effort until the customer has implemented a more comprehensive plan pursuant to the Standard Performance Contract Program.

## Findings of Fact

1. SCE has identified $18.7 million in unspent, uncommitted funds from past years.

2. It is not reasonable to approve new revenues when there are existing uncommitted funds available.

3. The question of whether or not it is appropriate to focus spending more on one sector as opposed to another is too important and complex to resolve in an expedited proceeding such as this.

4. SCE's adjustments in response to concerns voiced by TURN bring proposed spending closer to the balance achieved by existing programs.

5. The least effective use of a rebate dollar, on a per-unit basis, would be to encourage the purchase of an ENERGY STAR® refrigerator.

6. SCE's revised rebate programs provide a chance to accelerate load reduction in advance of this summer's potential high demand, and will not pose significant new ratepayer costs unless measure are actually installed within the timeframe of the program.

7. It will be beneficial to all involved if more incremental incentive dollars go to the installation of whole house fans, pool pumps and air conditioners, and fewer go to ENERGY STAR® refrigerators.

8. We lack the factual basis in this proceeding to determine that SCE cannot effectively achieve its refrigerator/freezer recycling penetration goals without lifting the age restriction imposed in D.03-12-060

9. The record does not support an increased incentive for freezer recycling.

10. Because we are approving neither the new $15 incentive, nor the removal of the age limit, it is less likely that SCE will need all of the proposed $4 million

in additional funds to support its recycling program this summer, regardless of its success in attracting new customers.

11. Even if the small and hard-to-reach summer program would succeed in producing short-run savings with the installation of relatively short-lived compact fluorescent bulbs in place of incandescent bulbs, it may reduce SCE's ability to achieve greater long-run savings by focusing exclusively on lighting measures.

12. By offering higher incentive payments to business customers undertaking only lighting changes this summer, SCE may lose the opportunity to help the same customers achieve greater savings through a more comprehensive energy efficiency strategy.

13. In order to avoid penalizing customers that have applied for participation in this program while this application is pending, SCE proposes to offer the increased rebates to any customer that submitted an application on or after the date that SCE filed this application. This appears to be a reasonable approach provided that SCE only pay the higher-than-current incentives to customers that bring the measures into effect prior to August 31, 2005.

14. The incremental funds for this program would be derived from procurement funds, which are not supported by direct access customers.

## Conclusions of Law

1. SCE should redirect $18.7 million in uncommitted funds for the purposes approved in this decision, and fund only the remaining amounts with new revenues.

2. No hearings are necessary.

3. For this reason, the Commission should not require further adjustments to the residential/nonresidential budget balance solely in the name of equity.

4. SCE should be particularly aggressive in pursuing the accelerated implementation of whole house fans, pool pumps and air conditioning.

5. We should not approve SCE's proposed increased incentives for freezer recycling.

6. We should allow SCE to redirect to the point-of-sale rebate program any of $4 million in additional funds approved for the recycling program that it needs to support its efforts to promote the early implementation of whole house fans, pool pumps and air conditioners.

7. If SCE wants to pursue lighting improvements through small and hard-to-reach customers this summer, it must find a way to draw these customers into a broader energy efficiency effort.

8. In order to ensure that SCE is not inadvertently encouraging customers to seek lighting changes in lieu of a more comprehensive approach, we should approve SCE's proposal for Summer 2005 standard performance contracts with the following modification: SCE may offer higher incentive payments for Standard Performance Contract customers that install more efficient lighting this summer, but participating customers must agree to adopt a more comprehensive energy efficiency plan within a reasonable period of time. SCE should withhold any larger-than-current incentive payments until the customer has implemented a more comprehensive plan pursuant to the Standard Performance Contract Program.

9. SCE's proposal for ratemaking treatment is consistent with existing practice and therefore should be approved.

10. Direct access customers should be allowed to participate in the Summer Standard Performance Contract.

11. The Commission should approve the revised proposal subject to the conditions set forth in this decision.

12. Consistent with D.03-12-060 et al., SCE should have 100% flexibility to shift the procurement funds approved in this decision between programs designed to reach the company's peak sharing goals for Summer 2005.

## O R D E R

**IT IS ORDERED** that:

1. Southern California Edison Company's (SCE) revised request to supplement its energy efficiency activities during the summer of 2005 is approved with the following modifications:

   a. As part of the approved $57 million in new expenditures, SCE shall first use $18.7 million in unspent, uncommitted funds from past years.

   b. SCE should aggressively seek customers to purchase house fans, pool pumps and air conditioners through its expanded point-of-sale (instant rebate) program.

   c. SCE shall not, at this time, remove the age limitation for refrigerators and freezers qualifying for the recycling rebate program.

   d. SCE shall not increase the rebate incentive for freezer-only recycling. SCE may redistribute the additional $4 million requested for the recycling program for use in the point-of-sale program, as needed.

   e. In its initial comments on the draft decision, SCE shall offer proposals to incorporate the recommendations of the Office of Ratepayer Advocates, discussed above, as they relate to the Small & Hard-to-Reach business proposal. These comments shall include a proposal for requiring participating customers to adopt a more comprehensive set of measures beyond the summer light bulb replacement.

f. SCE shall withhold any larger-than-current incentive payments for participants in the Summer 2005 Standard Performance Contract lighting retrofit effort until the customer has implemented a more comprehensive plan pursuant to the Standard Performance Contract Program. The combined projects installed under this initiative and the subsequent Standard Performance Contract Program should conform to the 80-20 rule (no more than 80% of the energy savings come from lighting measures), which is currently set forth in the program rules.

2. SCE shall have 100% flexibility to shift the procurement funds approved in this decision between energy efficiency programs designed to reach the company's peak shaving goals for Summer 2005.

3. Application 05-02-029 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.